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No. 14-1513

In The Supreme Court of the United States

HALO ELECTRONICS, INC.,
Petitioner,

v.

PULSE ELECTRONICS, INC.,
PULSE ELECTRONICS CORPORATION
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF *AMICUS CURIAE* FOR MYKEY TECHNOLOGY, INC. IN SUPPORT OF NEITHER PARTY

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INTEREST OF *AMICUS CURIAE*[1]

Amicus curiae MyKey Technology, Inc. ("MyKey") is a Gaithersburg, Maryland-based company founded by Steven Bress and Mark Menz in 2001. It owns seven United States patents, for which Mr. Bress and Mr. Menz are the inventors. MyKey is the plaintiff in a multidistrict litigation in the Central District of California in which three of its patents have been asserted. *See In re MyKey Technology Inc. Patent Litigation*, MDL No. 2461 (C.D. Cal No. 2:13-ml-02461). As a patentee and plaintiff in patent litigation, MyKey is interested in the orderly development and enforcement of the law, and is specifically interested in the way in which the damage enhancement provision of 35 U.S.C. § 284 is interpreted and applied.

MyKey's story is similar to that of many inventors, and small companies started by inventors. Though it hoped for outside investment, MyKey has been financed throughout its history exclusively by Mr. Bress and Mr. Menz, and the revenue the company has generated through limited commercialization of its products. MyKey's focus has been the development of hardware and software tools for use by law enforcement. During the development process, MyKey decided on patents as the way to protect its intellectual property, and to demonstrate value to potential investors.

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[1] Counsel for all parties have consented to the filing of this brief, as indicated by consents lodged with the Clerk. No counsel for any party had any role in authoring this brief, and no person other than the named *amicus curiae* and its counsel has made any monetary contribution to the preparation of this brief. *See* Supreme Court Rule 37.6.

When it made an attempt to sell the first product it developed, MyKey found itself in a situation in which its competitors, all of which were larger and more established, appeared to believe they could proceed without regard for infringement of MyKey's patents. MyKey perceived its competitors to assume it would be out of business before it could achieve success in patent litigation, or that they could outspend MyKey until it gave up, should litigation ensue.

Shortly after it filed its first patent application, MyKey began discussions with one of the larger companies in the field it had identified as a likely partner. MyKey's discussions with this company were not successful, and the company began selling a competing product under its own label soon thereafter. MyKey's initial patent was in prosecution, so it had no remedy for any infringement it could prove, and this continued to be the case during the four-year period from the filing of MyKey's provisional patent application to the issuance of the patent.

During the prosecution of MyKey's patent application, MyKey's competitor had the opportunity to develop and to solidify its position in the market. Others also joined the market. MyKey made some of the competitors aware that it had a patent pending on technology important to the field, but they did not seem concerned. Once MyKey's patents began to be issued, there was no change in the attitude of its competitors or their willingness to negotiate. This presented numerous problems, among them that a small market in which MyKey might have claimed a legal advantage was getting crowded. MyKey found itself in the unfortunate position of having to consider legal means to enforce its patents.

Today, as a plaintiff approaching the culmination of the litigation process, MyKey faces the prospect that the recovery it will obtain will afford it no more than what it should have received at the outset. If enhanced damages are not available on realistic terms, there is simply no deterrent to infringement when the plaintiff is a small company like MyKey, and settlement incentives are substantially reduced. That is so even in a case such as MyKey's, in which the defendants' attempt to obtain summary judgment of invalidity has been rejected.

SUMMARY OF ARGUMENT

Under 35 U.S.C. § 284, a district court is required to award a successful plaintiff "damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." In addition, the court "may increase the damages up to three times the amount found or assessed." Unlike a district court's power under 35 U.S.C. § 285 to award attorneys' fees in "exceptional cases," the discretion to enhance damages under section 284 is not limited to specific classes of cases or to particular circumstances. The power to enhance damages under section 284 is committed to the sound discretion of the district court.

In the Federal Circuit era, the power of a district court under section 284 has been defined and limited in various ways that are not consistent with the language of the statute. In a series of cases, the court of appeals has held that damages may be enhanced only when the plaintiff proves that the defendant's infringement is "willful," but there is no support for a willfulness limitation in the language of

section 284, or in any articulated and substantiated purpose of the statute.

Shortly after it was established, the Federal Circuit held that a party aware of a patent has an "affirmative duty to exercise due care to determine whether or not he is infringing." *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983). The affirmative duty established by the court included an obligation "to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity." Failure to discharge the "affirmative duty" resulted in a finding of "willful infringement" and provided a foundation for the imposition of enhanced damages.

The language of section 284 contains no indication of an "affirmative duty" of the type recognized by the Federal Circuit, and no justification for enhancement of damages simply because such a duty was not met. The imposition of the "affirmative duty" resulted in chaos in the patent litigation system, and unjustified threats of treble damages. The problems resulting from the creation of an "affirmative duty" not warranted by the language of section 284 were exacerbated when the Federal Circuit held that a defendant's invocation of the attorney-client privilege would support an "adverse inference" to the effect that the defendant had failed to obtain counsel, or had done so and had been advised that its actions constituted infringement of valid U.S. patents. The Federal Circuit eventually eliminated the "adverse inference" and then overturned the imposition of an "affirmative duty of care" in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (*en banc*).

Seagate retained the notion that willfulness is a prerequisite for enhancement of damages under

section 284, but it otherwise dramatically changed the analysis required to support enhancement of damages. Based on the idea that enhanced damages under section 284 are punitive damages, the Federal Circuit relied on cases interpreting statutes containing a "willfulness component" to establish a new willful infringement regime. The court of appeals determined that "proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness."

The Federal Circuit established a two-part analysis to be used to determine whether infringement is "willful." First, the plaintiff must prove that "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." This inquiry is entirely objective, and presents a question of law to be decided by the court.

The first *Seagate* inquiry allows a defendant to avoid a finding of willful infringement as long as it is able to point to at least one argument that rises above the level of "objective recklessness," regardless of whether the defendant ever considered the argument or entertained it any time before litigation. Under this standard, a deliberate copyist is not a "willful" infringer if its lawyer can present an after the fact argument that the court determines to be non-reckless.

The second, subjective aspect of the *Seagate* rule requires the plaintiff to prove that the "objectively-defined risk . . was either known or so obvious that it should have been known to the accused infringer."

Seagate is a well-intentioned attempt to correct the problems that plagued the patent system

under *Underwater Devices*, but the *Seagate* rule cannot be justified as an interpretation of section 284, or a proper application of the methodology used when federal courts interpret federal statutes.

Section 284 should be interpreted as any other federal statute would be interpreted. The interpretation of a statute begins, and typically ends, with the language of the statute. A court's inquiry comes to an end "if the statutory language is unambiguous and the statutory scheme is coherent and consistent." That is the case here.

The language of section 284 contains no support for a requirement of "willful" infringement, or for the two-part *Seagate* test. By its use of the word "may," section 284 makes clear that the determination of whether damages will be enhanced is committed to the sound discretion of the district court. Discretion must be exercised wisely, but there is no justification for the imposition of limits such as those imposed by the Federal Circuit on the process by which a district determines whether to enhance damages and, if so, the amount of the enhancement. There is no justification for a willfulness screen or a determination that damage enhancement under section 284 plays a strictly punitive role.

There is no need for this Court to attempt to define at this time the circumstances under which enhancement is or is not appropriate. The decision to enhance damages is "'multifarious and novel,' . . and 'likely to profit from the experience that an abuse-of-discretion rule will permit to develop.'" *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748-49 (2014). The Court should, however, confirm that damage enhancement may be available under section 284 for compensatory as well

as punitive purposes, if a sound exercise of discretion by a district court shows enhancement to be appropriate.

ARGUMENT

I. THE *SEAGATE* RULE IMPROPERLY LIMITS DISTRICT COURT DISCRETION TO ENHANCE DAMAGES.

In an action for patent infringement, a district court "shall" award a successful plaintiff "damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284. A district court "may increase the damages up to three times the amount found or assessed." *Id.* Unlike the fee shifting authority created by 35 U.S.C. § 285, which is available only in "exceptional" cases, *see generally Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014), a district court's power to enhance damages under section 284 is not conditioned in an explicit manner. *See Gen. Motor Corp. v. Devex Corp.*, 461 U.S. 648, 653 (1983) ("On the face of § 284, a court's authority to award interest is not restricted to exceptional circumstances, and there is no warrant for imposing such a limitation."). "When Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly. With respect to attorney's fees, Congress expressly provided that a court could award such fees to a prevailing party only 'in exceptional cases.'" *Id.* "The power to award [] interest," and the power to enhance damages, "[were] not similarly restricted." *Id.*

In the Federal Circuit era, the power of a district court to enhance damages has nonetheless been governed by a series of rules with no grounding in the language of section 284 or the structure or purpose of the Patent Act. These rules have resulted in, first, chaos, as every defendant in every case faced a threat of enhancement if it did not meet a non-statutory "duty of care," and then an equal and opposite reaction that resulted in the nearly complete elimination of enhanced damages in patent cases. Neither approach is consistent with the language of section 284, and the current rule, adopted in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (*en banc*) should be rejected by this Court.

A. The *Underwater Devices* "Duty Of Care."

In *Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268 (Fed. Cir. 1985), the Federal Circuit found it "well-settled that enhancement of damages must be premised on willful infringement or bad faith." *Id.* at 277 (citing *Baumstimler v. Rankin*, 677 F.2d 1061, 1073 (5th Cir.1982) (enhancement of damages "is within the discretion of the District Court when the infringement is willful and wanton") and *Lam, Inc. v. Johns-Manville Corp.*, 668 F.2d 462, 474–75 (10th Cir. 1982) ("Courts have limited [enhancement] to instances in which the infringement was willful, and even then it is committed to the trial court's discretion.")). *See also Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991) ("Although the statute does not state the basis upon which a district court may increase damages, '[i]t is well-settled that enhancement of damages must be premised on willful infringement or bad faith.'") (citing *Yarway*, 775 F.2d at 277).

These cases, and those on which they relied, made no attempt to justify a willfulness requirement in the language of section 284, but, when *Yarway* was decided in 1985, it was indeed "well-settled" that willfulness is a requirement for the enhancement of damages under section 284.

Later cases partially and incongruously explained the imposition of a willfulness requirement by noting that section 284 lacks an explicit standard for the enhancement of damages. In *Jurgens v. CBK, Ltd.*, 80 F.3d 1566 (Fed. Cir. 1996), the Federal Circuit observed that section 284 "gives no criteria for" the enhancement of damages, and stated that "[a]bsent statutory instructions," the Federal Circuit had "interpreted the increased damages part of section 284 as requiring a two step process." *Id.* at 1570 (citing *State Indus. v. Mor-Flo Indus.*, 948 F.2d 1573, 1576 (Fed. Cir. 1991)). The steps involved a factual determination as to "whether an infringer is guilty of conduct upon which increased damages may be based," and an exercise of trial court discretion determining "whether, and to what extent, to increase the damages award given the totality of the circumstances." *Id.* (citing *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992)). In *Seagate*, the court of appeals similarly commented that "[a]bsent a statutory guide, we have held that an award of enhanced damages requires a showing of willful infringement." *Seagate*, 497 F.3d at 1368 (citing *Beatrice*, 923 F.2d at 1578).

Although there is no mention of a requirement of culpability in section 284, or statutory connection between enhancement of damages and wrongful intent, in *Jurgens*, the court justified the willfulness requirement with the comment that "[b]ecause

increased damages are punitive, the requisite conduct for imposing them must include some degree of culpability." 80 F.3d at 1570 (citing *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1523 (Fed. Cir. 1996) (*en banc*), *rev'd*, 520 U.S. 17 (1997), and *Beatrice*, 923 F.2d at 1579). *But see Seagate*, 497 F.3d at 1378-84 (Gajarsa, J., concurring). The *Seagate* court argued that the willfulness requirement is consistent with Supreme Court precedent, citing dicta in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964), *Dowling v. United States*, 473 U.S. 207, 227 n.19 (1985), and *Seymour v. McCormick*, 57 U.S. 480, 489 (1853).

Judge Gajarsa's concurring opinion in *Seagate* called for elimination of "the grafting of willfulness onto section 284." *Seagate*, 497 F.3d at 1376-77. He noted that section 284 "unambiguously omits" a willfulness requirement, and saw "no principled basis for continuing to engraft a willfulness requirement onto section 284." *Id.* According to Judge Gajarsa, the proper result was to "adhere to the plain meaning of the statute and leave the discretion to enhance damages in the capable hands of the district courts." *Id.* Judge Gajarsa also addressed at length the circumstances in which enhanced damages play an entirely remedial role not dependent on a finding of culpability, *id.* at 1378-84, although various Federal Circuit decisions had, as *Jurgens* did, asserted that "enhanced damages are punitive, not compensatory." *See, e.g., Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1574 (Fed. Cir. 1996) (citing *Beatrice*, 923 F.2d at 1580) ("Enhancement is not a substitute for perceived inadequacies in the calculation of actual damages, but depends on a showing of willful in-

fringement or other indicium of bad faith warranting punitive damages."). *Id.*

Two years before *Yarway*, the Federal Circuit adopted what proved to be a disastrous gloss on the willfulness requirement in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). In *Underwater Devices*, the court of appeals decided that a potential infringer has an "affirmative duty to exercise due care to determine whether or not he is infringing." The affirmative duty included an obligation "to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity." *Id.* at 1390. If this "affirmative duty" was not honored, a finding of willfulness followed. *Id.*

The Federal Circuit derived the "affirmative duty" standard from two cases, *General Electric Co. v. Sciaky Brothers*, 415 F.2d 1068 (6th Cir. 1969), and *Marvel Specialty Co. v. Bell Hosiery Mills, Inc.*, 386 F.2d 287 (4th Cir. 1967). In *General Electric*, the Sixth Circuit upheld the district court's adoption of a special master's finding that "clearance" by the General Electric patent department and an opinion of outside counsel were insufficient to support the infringer's "honest doubt" defense to allegations of infringement. *Gen. Elec.*, 415 F.2d at 1073-74. The court "recognize[d] that a good-faith opinion by competent and independent patent counsel may be important evidence to be weighed on the issue of 'honest doubt' of patent validity," but affirmed a willfulness finding and award of enhanced damages. *Id.* at 1073 (citing *Continental Can Co. v. Anchor Hocking Glass Corp.*, 362 F.2d 123 (7th Cir. 1966) and *Union Carbide Corp. v. Graver Tank & Mfg. Co., Inc.*, 282 F.2d 653 (7th Cir. 1960).).

In *Marvel Specialty Co.*, the Sixth Circuit upheld the district court's adoption of a Special Master's findings that the president of the infringing company was aware of similarities between the patented and infringing machines, but "did not seek the opinion of competent patent attorneys" until the patentee gave notice of the infringement." *Marvel Specialty Co.*, 386 F.2d at 289. In upholding the district court's award of treble damages, the court noted that "[t]he allowance of treble damages is largely discretionary." *Id.* at 292.

The cited cases did not provide strong support for the imposition of a rigid "affirmative duty of due care," and the Federal Circuit has suggested that the *Underwater Devices* standard was a reaction to the belief that "widespread disregard of patent rights was undermining the national innovation incentive," one of the justifications for the creation of the Federal Circuit, rather than an attempt to interpret section 284. *Seagate*, 497 F.3d at 1369 (Fed. Cir. 2007) (quoting *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004)). *Underwater Devices* wreaked havoc on the patent litigation system. *See Knorr-Bremse*, 383 F.3d at 1351-52 (Dyk, J., dissenting). As Judge Dyk noted in his *Knorr-Bremse* dissent, "the due care requirement . . fostered a reluctance to review patents for fear that the mere knowledge of a patent will lead to a finding of lack of due care, a cottage industry of window-dressing legal opinions by third party counsel designed to protect the real decision-making process between litigating counsel and the company's executives, the imposition of substantial legal costs on companies seeking to introduce innovative products, and an enhanced ability of holders of dubious patents to force competitors' products off of the

market through the threat of enhanced damages. *Id.* at 1351. Others observed that innovators were discouraged from reading patents, patentees were encouraged to harass competitors, and communication between innovators and their attorneys was inhibited. *See* Carol Johns, *Knorr-Bremse Systeme Fuer Nutzfahrzeuge Gmbh v. Dana Corp.: A Step in the Right Direction for Willful Infringement*, 20 Berkeley Tech. L.J. 69, 70 (2005).

Underwater Devices discouraged innovators from reading patents because doing so risked putting the innovator on notice of patents that the innovator might infringe, triggering the affirmative duty of due care, requiring the retention of counsel, and presenting a risk of treble damages. "[C]orporations implemented policies forbidding inventors and patent attorneys from patent searching," thus "encourage[ing] their inventors and patent attorneys to engage in willful blindness so that they could claim ignorance as to the knowledge of patent disclosures of others." Andrew M. Newton, *Encouraging Willful Infringement? Knorr-Bremse Leaves Due Care In Patent Litigation In A State Of Flux*, 15 Tex. Intell. Prop. L.J. 91, 108 (2006) (citing Robert Greene Sterne et al., *The U.S. Patent Landscape for Electronics Companies*, Computer & Internet L., Sept. 2005 at 1, 18) ("[C]ompanies implemented policies to discourage or forbid patent searching by inventors and patent attorneys."). These outcomes tended to discourage the dissemination of knowledge that is a fundamental part of the tradeoff reflected in the grant of exclusive rights for a limited time to inventors willing to disclose their work to the public. *See* Edwin H. Taylor & Glenn E. Von Tersch, *A Proposal to Shore Up the Foundations of Patent Law That the Underwater Line Eroded*, 20 Hastings Comm. & Ent.

L.J. 721, 737 (1998) ("[T]his defeats the basic purpose of the patents [*sic*] laws, dissemination of information.").

The "cottage industry" described by Judge Dyk involved "opinions of counsel" obtained in response to the *Underwater Devices* duty of care. Merely sending a letter mentioning a patent, no matter how tenuous the possibility of infringement, could trigger the affirmative duty of care and require a company wishing to avoid the possibility of treble damages to engage counsel to evaluate the infringement and validity scenario relevant to the patent. On its face, *Underwater Devices* required that this be done before infringing activity began. *Underwater Devices*, 717 F.2d at 1390. Companies could thus be forced to seek opinions of counsel that cost from $10,000 to $100,000 per patent, even if the likelihood of infringement was minimal. Newton, 15 Tex. Intell. Prop. L.J. at 108 (citing Taylor & Von Tersch, 20 Hastings Comm. & Ent. L.J. at 740 ("A reliable patent opinion costs at least $10,000 if the patent has any real complexity. Indeed, an opinion on a set of 'submarine' patents will cost well over $100,000.")). *See Knorr-Bremse* Brief of *Amicus Curiae* Conejo Valley Bar Association in Support of Neither Party at 3 ("Innovators, in the face of 'cheap' notice letters, are forced to incur 'expensive' opinions of counsel as insurance against a sure inference of willfulness. This is an opportunity cost: money which could be spent on product launches is diverted to law firms.").

To make things worse, the requirement that a party aware of a patent and the possibility of infringement engage counsel was backed by an "adverse inference" recognized in *Kloster Speedsteel AB*

v. Crucible Inc., 793 F.2d 1565 (Fed. Cir. 1986), *rev'd*, *Knorr-Bremse*, 383 F.3d at 1344. Silence on the question of whether an accused infringer sought the advice of counsel before litigation, "in alleged reliance on the attorney-client privilege, would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid U.S. patents." *Id.* at 1580. *See also Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988), *rev'd*, *Knorr-Bremse*, 383 F.3d at 1344. In *Knorr-Bremse*, the Federal Circuit eliminated the possibility of an "adverse inference" arising from an infringer's failure to obtain an opinion of counsel, or, if it did, from its invocation of the attorney-client privilege. *Knorr-Bremse*, 383 F.3d at 1344. Three years later, *Seagate* overruled the willfulness standard set out in *Underwater Devices*, and instituted the two-part test that governs willfulness determination under Federal Circuit law today. *See Seagate*, 497 F.3d at 1371.

B. *Seagate* Overcorrects The Problems Created By *Underwater Devices*.

After nearly twenty-five years of *Underwater Devices*, and the elimination of the "adverse inference" associated with the invocation of the attorney-client privilege in *Knorr-Bremse*, the Federal Circuit set a new path in *Seagate*, again without regard for the actual language of the statute. Over Judge Gajarsa's dissent, the court of appeals retained the willfulness requirement, but fashioned a new test, intended to eliminate various problems resulting from *Underwater Devices*, and apparently calculated to limit the circumstances in which enhancement would be available. *See id.* at 1369 ("Since *Underwa-*

ter Devices, we have recognized the practical concerns stemming from our willfulness doctrine, particularly as related to the attorney-client privilege and work product doctrine."); *id.* ("Recently, in *Knorr-Bremse*, we addressed another outgrowth of our willfulness doctrine."). *See also id.* at 1384-85 (Newman, J., concurring) ("However, experience, and the exhortations of the *amici curiae*, have persuaded me that we should reduce the opportunities for abusive gamesmanship that the 'due care' standard apparently has facilitated."). "In light of Supreme Court opinions since *Underwater Devices* and the practical concerns facing litigants under the current regime," the Federal Circuit overruled *Underwater Devices*, and adopted an entirely new approach to willful infringement and damage enhancement under section 284.

The court of appeals stated that "the duty of care announced in *Underwater Devices* sets" a "threshold for willful infringement" that is "lower" than the standard adopted under statutes containing the word "willful," and "more akin to negligence" than to the accepted understanding of "willful" in the civil context. *Id.* at 1371. Relying on the idea that enhanced damages under section 284 are "punitive," the Federal Circuit determined the *Underwater Devices* standard to be "inconsistent with Supreme Court precedent," referring to cases interpreting statutory language including a "willful" requirement. *Id.* The court "overrule[d] the standard set out in *Underwater Devices*," and decided that "proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness." *Id.*

The initial *Seagate* inquiry is focused on the question of whether the defendant's position is "objectively reckless." The question is whether the "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Seagate*, 497 F.3d at 1371. *See Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006 (Fed. Cir. 2012) ("*Seagate* . . requires a threshold determination of objective recklessness"). This inquiry is entirely objective, and presents a question of law to be decided by the court. *See Seagate*, 497 F.3d at 1371 ("The state of mind of the accused infringer is not relevant to this objective inquiry."); *Bard*, 682 F.3d at 1006 (objective recklessness "determination entails an objective assessment of potential defenses based on the risk presented by the patent"); *id.* at 1006-07 ("This court therefore holds that the objective determination of recklessness, even though predicated on underlying mixed questions of law and fact, is best decided by the judge as a question of law subject to *de novo* review.").

As the petitioners have pointed out, even a deliberate copyist, aware of a patent, intending to misappropriate the invention of another for its own profit, and caught red handed by a jury verdict of infringement – as "willful" an infringer as can be imagined – can avoid enhancement as long as its litigation counsel can articulate at least one non-infringement or validity argument that rises above the level of "objective recklessness." *See id. See* Petitioner's Br. in No. 14-1520 at 13.[2] In *Stryker*

[2] *Seagate* refers to "objective recklessness," a concept that appears to match the standard for "sham" litigation established by this Court in *Professional Real Est. Invs., Inc. v. Columbia*

Corp. v. Zimmer, Inc., 782 F.3d 649 (Fed. Cir. 2015), one of the cases now before the Court, there was evidence "that Zimmer 'all but instructed its design team to copy Stryker's products,'" *id.* at 661, but the Federal Circuit concluded that "[a]n objective assessment of the case shows that Zimmer presented reasonable defenses to all of the asserted claims of Stryker's patents." *Id.* The argument by which a finding of objective recklessness is defeated at trial (or on appeal) need never have occurred to the defendant, which can escape liability for enhanced damages even if knowing infringement was an intentional corporate policy. *See* Petitioner's Br. in No. 14-1520 at 13.

The subjective aspect of *Seagate* requires the patentee to prove that the "objectively-defined risk . was either known or so obvious that it should have been known to the accused infringer." *Seagate*, 497 F.3d at 1371. In addition to disclaiming recognition that it was infringing, a defendant has the oppor-

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Pictures Indus., Inc., 508 U.S. 49 (1993). *See Bard*, 682 F.3d at 1008 ("On remand, therefore, the court should determine, 'based on the record ultimately made in the infringement proceedings,' whether a 'reasonable litigant could realistically expect' those defenses to succeed.") (citing *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (Fed. Cir. 2011) and *Professional Real Est. Invs.*, 508 U.S. at 60). The Federal Circuit commonly poses the question of whether a defendant's position is "reasonable," however, a standard that requires more than rising above "objective recklessness." *See Bard*, 682 F.3d at 1008; *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1310 (Fed. Cir. 2011) (objective recklessness is not present when the defendant's "position is susceptible to a reasonable conclusion of no infringement"). *See also Stryker Corp.*, 782 F.3d at 662 ("In sum, we find that Zimmer's defenses to the infringement of each patent claim that Stryker asserted were not objectively unreasonable, and, therefore, it did not act recklessly.").

tunity to present *Underwater Devices*-like opinions of counsel to justify its profession of innocence. Counsel might testify, for example, that he or she advised the defendant that a patent in suit was invalid or was not infringed, and a representative of the defendant might assert subjective, assertedly reasonable reliance on the litigation-inspired opinion.

Seagate is a well-intentioned attempt to correct the problems that plagued the patent system under *Underwater Devices*, but the *Seagate* rule cannot be justified as an interpretation of section 284, or a proper application of the methodology used when federal courts interpret federal statutes.

As the petitioners have explained, *see* Petitioner's Br. in No. 14-1513 at 21-24, in No. 14-1520 at 51-53, *Seagate* also goes too far. The *Seagate* test is not aimed at obvious types of willful infringement, assuming willful infringement is the sole, or an important, focus of section 284, and is not calculated to strike a proper balance between making enhancement a realistic threat in nearly every case, as *Underwater Devices* did, and the alternative of rendering the enhancement feature of section 284 nearly a dead letter, as has been the case under *Seagate*. The result is that individual inventors and small companies such as MyKey are unable to obtain enhanced damages in many cases in which infringement can fairly be said to be "willful," and in others in which a reasoned case for enhancement can be justified under the language that actually appears in section 284.

II. ENHANCEMENT UNDER SECTION 284 IS COMMITTED TO THE DISCRETION OF THE TRIAL COURT.

A. A District Court "May" Enhance Damages.

The interpretation of a statute must begin, and it typically ends, with the language of the statute. *Sebelius v. Cloer*, 133 S. Ct. 1886, 1893 (2013); *see id.* at 1895 ("Our 'inquiry ceases [in a statutory construction case] if the statutory language is unambiguous and the statutory scheme is coherent and consistent.'") (quoting *Barnhart v. Sigmon Coal Co.*, 534 U.S. 438, 450 (2002)). *See also Octane Fitness*, 134 S. Ct. at 1755-56 ("Our analysis begins and ends with the text of § 285."). As this Court's patent law decisions show, the principles of statutory interpretation that govern the Patent Act are no different from those applicable to other federal statutes. This case provides another "opportunity to bring patent law regarding damages into the mainstream of the general law," and again to make clear that there is not a "special niche for the realm of patent law" when it comes to the interpretation of statutes. *See Seagate*, 497 F.3d at 1382 (Gajarsa, J., concurring).

The language of section 284 contains no support for a requirement of "willful" infringement, it does not identify a "duty of care" that must be met on pain of near automatic enhancement, and it contains no hint of a multi-step, objective/subjective test incorporating concepts taken from cases involving other subjects. As this Court observed in *General Motors Corp.*, "when Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly," by limiting fee shifting to "exceptional cases." 461 U.S. at 653. *See also Octane*

Fitness, 134 S. Ct. at 1755-56 ("This text is patently clear. It imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for 'exceptional' cases."). Section 284 does not contain an exceptionality requirement, and it says nothing else justifying either of the pendulum swings that have governed the application of section 284 during the Federal Circuit era.

Section 284 states that a district court "shall" award a successful plaintiff "damages adequate to compensate for the infringement," and that it "may" increase those damages "up to three times the amount found or assessed." 35 U.S.C. § 284. "The word 'may' clearly connotes discretion." *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 533 (1994)); *see also Lopez v. Davis*, 531 U.S. 230, 241 (2001) (explaining that the discretionary nature of the "permissive 'may'" is especially apparent where Congress uses the "mandatory 'shall'" in the same section). Under the plain language of section 284, a district court has discretion to enhance damages or not, and, if enhancement is determined to be appropriate, to decide the level of enhancement, "up to three times the amount found [by the jury] or assessed [by the court]." A decision to enhance does not require copying or other "willful" or "exceptional" infringement, litigation misconduct, bad faith, or any other narrowly defined set of circumstances. Like many other decisions made by district judges every day, enhancement decisions are committed to the sound discretion of the district court.

The fact that enhancement, and the level of enhancement, are "left to the district court's discretion, with no heavy congressional thumb on either

side of the scales, does not mean that no legal standard governs that discretion." *Martin v. Franklin Cap. Corp.*, 546 U.S. 132, 139 (2005). As Chief Justice Marshall said in *United States v. Burr*, 25 F. Cas. 30, 35 (C.C.D. Va. 1807) (No. 14,692D), "a motion to [a court's] discretion is a motion, not to its inclination, but to its judgment; and its judgment is to be guided by sound legal principles." "Discretion," this Court said in *Martin*, "is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike." *Martin*, 546 U.S. at 139.

There are situations in which limits on district court discretion may be appropriate in the absence of "express legislative restrictions," as in fee shifting cases where the Court has found limits based on the "equitable considerations" tied to the "large objectives of the relevant Act," *see Martin*, 546 U.S. at 139-40. The rules set out in Federal Circuit case law have not been connected to, and have not reflected appropriately, any identified "large objectives" of the Patent Act. Instead, the Federal Circuit has sought to fulfill policy perspectives about how best to serve the interests reflected in the prevailing wisdom of a given time, or to correct excess in past attempts to meet policy objectives. This is not the correct process of statutory interpretation, and it is not the process followed by this Court in the search for limits on the exercise of discretion granted by Congress, but not confined in an explicit way.

The "plain meaning" approach to section 284 is in harmony with the adequate compensation-focused purpose and the history of the statute. In *General Motors* this Court explained that "Congress' overriding purpose" in enacting section 284 was "affording

patent owners complete compensation." *Gen. Motors Corp.*, 461 U.S. at 655. In patent cases pre-dating section 284 and the 1946 amendments to the patent statute, this Court recognized that complete compensation of a successful patent plaintiff must account for a range of circumstances. *See Clark v. Wooster*, 119 U.S. 322, 326 (1886) ("There may be damages beyond [a reasonably royalty], such as the expense and trouble the plaintiff has been put to by the defendant, and any special inconvenience he has suffered from the wrongful acts of the defendant; but these are more properly the subjects of allowance by the court under the authority given to it to increase the damages."); *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860) ("[I]f, in the opinion of the court, the defendant has not acted in good faith, or has caused unnecessary expense and injury to the plaintiff, the court may render judgment for a larger sum, not exceeding three times the amount of the verdict."). *Day v. Woodworth*, 54 U.S. 363, 372 (1851) ("[I]f, in the opinion of the court, the defendant has not acted in good faith, or has been stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff, the court may increase the amount of the verdict, to the extent of trebling it."). These remedial considerations remain, and they are worthy of consideration by district courts in the exercise of the discretion granted them by section 284.

The language of section 284 and the cases do not preclude a role for conduct-based screens, but neither do they allow the formal imposition of a willfulness screen or assign a strictly punitive role to section 284 enhancement. The proper exercise of a district court's discretion should include thorough consideration of all of the circumstances that might bear on the possibility or extent of enhancement in a

given case, unburdened by limits of the type that Congress could have imposed, but did not.

B. The Court Should Not Attempt To Define Limits On The Exercise Of Trial Court Discretion At This Time.

The approach to section 284 taken by the Federal Circuit in *Underwater Devices*, *Seagate*, and other cases is not consistent with the language of section 284, or the ordinary rules of statutory interpretation. As it did in *Octane Fitness*, the Court should reject the *Seagate* formula and hold that section 284 allows a district court to enhance damages, when, in the exercise of its sound discretion, based on all of the facts and circumstances, the court concludes enhancement is in order, and that the statute similarly authorizes a district court to determine the extent, up to three times the damages awarded by the jury or the court, to which enhancement is in order.

MyKey respectfully suggests that the Court should not attempt now to establish a formula for use by district courts in the determination of whether damages should be enhanced, or to provide guidelines on the exercise of the discretion afforded by section 284. The decision to enhance damages is "'multifarious and novel,' . . . and 'likely to profit from the experience that an abuse-of-discretion rule will permit to develop.'" *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748-49 (2014). Past experience shows that an attempt to articulate a list of factors weighing in favor or against enhancement may lead to rigidity and the development of "rules" not in keeping with the flexi-

ble standard intended by section 284's grant of discretion.

The Court should, however, make clear that district courts may exercise their discretion to enhance damages for compensatory, as well as punitive, reasons. Nothing in the language of section 284 limits a district court's authority to enhance damages to circumstances justifying or requiring punitive measures. To the extent a "large objective" of section 284, *see Martin*, 546 U.S. at 139-40, can be discerned, it is to provide adequate compensation to the patentee, and that objective is not well served by a restriction on the exercise of district court discretion forbidding compensatory enhancement of damages.

In prior case involving statutes that grant discretion to district courts, this Court has recognized that development of the law through experience is desirable. *See Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990) ("An appellate court's review of whether a legal position was reasonable or plausible enough under the circumstances is unlikely to establish clear guidelines for lower courts; nor will it clarify the underlying principles of law."); *Pierce v. Underwood*, 487 U.S. 552, 561-62 (1988) (quoting Maurice Rosenberg, *Judicial Discretion of the Trial Court, Viewed from Above*, 22 Syracuse L. Rev. 635, 638 (1971) ("One of the 'good' reasons for conferring discretion on the trial judge is the sheer impracticability of formulating a rule of decision for the matter in issue. Many questions that arise in litigation are not amenable to regulation by rule because they involve multifarious, fleeting, special, narrow facts that utterly resist generalization—at least, for the time being."). *See also Gen. Motors Corp.*, 461 U.S. at 657 ("There may be other circumstances in which it

may be appropriate not to award prejudgment interest. We need not delineate those circumstances in this case."). A similar approach should be taken here.

CONCLUSION

The approach taken by the Federal Circuit from *Underwater Devices* to *Seagate* and beyond has failed to take proper account of the language of section 284, and has improperly restricted the discretion granted district courts by section 284. The overly restrictive *Seagate* rule should be rejected in favor of a flexible authorization of the resolution of enhancement disputes through the sound exercise of discretion by district courts.

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Respectfully submitted,

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